

The Surety & Fidelity Association of America

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August 27, 2018

Via Electronic Mail

Jody Colombie
Alaska Oil and Gas Conservation Commission
333 West 7th Avenue
Anchorage, AK 99501


Re: Proposed Changes on Bonding/20 AAC 25.025

Dear Ms. Colombie:

The Surety & Fidelity Association of America ("SFAA") is a non-profit corporation whose member companies collectively write the majority of surety and fidelity bonds in the United States. SFAA is a licensed rating or advisory organization in all states and is designated by state insurance departments as a statistical agent for the reporting of fidelity and surety experience. The vast majority of bonds that secure regulatory obligations are provided by SFAA members. We appreciate the opportunity to provide comments regarding the captioned proposed regulation, which revises the bond requirements applicable to well operators. In particular, the proposed regulation significantly increases the required bond amounts. Although we do not take a position regarding the specific amounts, we provide guidance regarding the relationship between the bond amount and the bond's availability in the market.

Unlike other forms of insurance, in the event the surety must pay a loss, it has the right to seek indemnity from the principal (the well operator, in this case). Therefore, part of the surety's underwriting involves a financial assessment of the principal. The surety will require a certain threshold of financial strength relative to the bond amount – the higher the bond amount, the higher the threshold. An operator with limited net worth and working capital might find it difficult to obtain a bond required for multiple wells. We ask that the Commission consider the effect of the bond amount on availability.

We thank you for your consideration of our comments.

Sincerely,

Robert J. Duke
General Counsel